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ICI VIEWPOINTS

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Updated FICCA Framework Makes Auditing Omnibus Accounts Easier, More Efficient

By Kathleen Joaquin

Many financial intermediaries—such as broker-dealers, financial advisers, and retirement plan recordkeepers—provide services to fund shareholders and maintain customer account information on their own recordkeeping systems. Fund sponsors, in turn, want to ensure that intermediaries are meeting their obligations in servicing fund shareholders, and so, have been seeking oversight tools that allow them to do this efficiently and effectively. ICI recently took steps to improve one of the critical oversight tools available to the industry, through a major update of the Financial Intermediary Controls and Compliance Assessment (FICCA) engagement framework.

To understand this development and its significance, it helps to have some background on trends in fund distribution. Mutual funds often work with financial intermediaries to offer funds to the public. In such arrangements, the financial intermediary typically handles all communications, servicing, and recordkeeping of its customer accounts. Mutual fund complexes have oversight responsibility to ensure adherence to contractual obligations and compliance with the terms of required documents.

This management and oversight obligation can be made more challenging for fund complexes because many intermediaries manage individual customer activity through “omnibus” accounts on the books of fund transfer agents, in which the intermediary maintains the underlying shareholder account information in its own recordkeeping systems—a process known as subaccounting—and submits underlying investor transactions to funds for processing on an aggregate basis. The underlying shareholders in an omnibus account do not directly interact with the fund organization.

Fund sponsors employ a variety of oversight techniques—including contractual standards on servicing, certifications, questionnaires, receipt of transparency data, review of analytics, and on-site visits—to monitor intermediaries' obligations. However, some of these methods can be duplicative, inefficient, and burdensome for intermediaries that have agreements with multiple fund complexes.

Recognizing the benefits of creating a standardized and efficient way for financial intermediaries to report on the effectiveness of their control environment, in 2008 a working group of ICI member firms, intermediaries, and representatives of the four largest national accounting firms developed the FICCA engagement framework. The framework calls for the omnibus account recordkeeper to engage an independent accounting firm to assess its internal controls relating to specified activities that the intermediary performs for their shareholder accounts.

An Efficient and Flexible Framework—Now Made Better

The FICCA framework developed by the fund industry describes 17 areas of focus where fund sponsors may seek assurance, including document retention and recordkeeping, transaction processing, shareholder communications, privacy protection, and anti–money laundering, among other things. The intermediary may provide the FICCA auditor's report and other control reports to all of the funds it represents, reducing the need for overlapping compliance reviews by each fund complex.

The scope of the auditor's examination is intended to be flexible for the intermediary completing the engagement—for example, if an omnibus firm has previously engaged an auditor to perform an examination of its financial reporting controls, the FICCA assessment can be used to provide assurance on the remaining controls. Both engagements would be performed under standards established by the American Institute of Certified Public Accountants (AICPA).

Encouraged by the experiences of auditors and intermediaries using the FICCA framework since its introduction, in 2013 ICI organized a working group to review and enhance the framework, in the hope that improvements would promote even broader use by intermediaries and funds.

The updated FICCA framework includes refinements to requirements and clarifies terminology, while preserving the program's inherent flexibility for intermediaries providing funds with independent assessments of the 17 control areas. As with the 2008 framework, an intermediary may provide one comprehensive audit report or a combination of audit reports.

The updates also include a new glossary and supplemental information to provide further clarity on the framework, as well as a mapping document that can help fund sponsors determine where the control areas are covered if multiple audit reports are provided by the intermediary.

For More Information

Fund, intermediary, or audit firm representatives who are interested in learning more about the benefits of the FICCA framework and the recent improvements to it should contact me at kjoaquin@ici.org or 202-326-5930; **Marty Burns**, ICI Senior Director of Operations and Distribution, at mburns@ici.org or

202-326-5980; or **Greg Smith**, ICI Senior Director of Fund Accounting, at smith@ici.org or 202-326-5851.

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